

CFRC WORKING PRINCIPLES FOR REVENUE POLICIES

The purpose of establishing these Working Principles is to provide a framework of decision criteria the Citizens Finance Review Commission (CFRC) can use to evaluate changes to our state's revenue collection system. The CFRC recognizes that specific determination of expenditure levels is outside of the scope of the CFRC Mission, leaving such decisions to those policymakers tasked with the responsibility for determining the sufficiency and adequacy of expenditures. However, the CFRC recognizes that a revenue collection system must operate within the state's constitutional limits for a balanced budget: expenditures cannot exceed revenues. The CFRC will test the ability of the revenue collection system to meet various expenditure levels over time using a combined index of population growth plus per capita income. Although the CFRC is not suggesting this index as a form of expenditure cap or limit, we will utilize this approach when considering changes to the revenue collection system.

1. Equitable:

- State revenues should be broadly based
- State revenue structure should reflect horizontal equity; treating taxpayers of equal means equally
- State revenue structure should reflect vertical equity, where taxes are paid increasingly with the ability to pay

2. Economic Vitality:

- Arizona's revenue structure should contribute to economic vitality and a stable economic environment, and should be competitive with tax policy and rates in other states
- State revenue structure should encourage new investment forecasted to produce net, present value benefits and a reasonable return to the state
- State revenue structure should keep Arizona competitive with other states by assuring economic impacts are consistent with the impact in competitive states

3. Volatility:

- State revenue structure should provide for and react to economic volatility, consider revenue cycles, competitiveness and long term economic development goals
- State revenue structure should make the revenue streams as predictable as possible
- State revenue structure should consider short and long term impacts on all taxpayers

4. Simplicity:

- State revenue structure should be simple, transparent and as direct as possible
- State revenue collection should have low taxpayer compliance costs
- Technology should be utilized to minimize administrative costs of revenue collection and make tax remittance processes user friendly